Altin

Extra protection added for uncertain times

Market volatility has increased over the last few weeks. Over the six months or so since we wrote our last note on Altin, the managers have been increasing the weighting to Protection Strategies, in anticipation of such a development. This has contributed to Altin's performance lead over rivals.

Targeting 6% (post fee) returns with low volatility

Altin aims to grow investors' capital and to deliver superior risk-adjusted returns with a low annualised standard deviation. It does this by investing in funds with a diverse range of fund managers and investment styles, mainly in the field of alternative investments, predominantly hedge funds. It is targeting a return of 6% after fees in the current market environment with lower volatility than and a low correlation, to equity markets.

Year ended	Share price total return (%)	NAV total return (%)	HFRI FoF Comp. TR (%)	MSCI World Hedged TR (%)	CGBI WGBI total return (%)
31/08/11	12.7	6.5	3.3	5.8	1.0
31/08/12	(9.3)	0.2	(0.8)	9.2	5.1
31/08/13	7.9	3.3	6.0	17.7	0.6
31/08/14	20.3	11.1	7.8	18.4	6.6
31/08/15	12.3	3.8	1.6	(0.2)	2.9

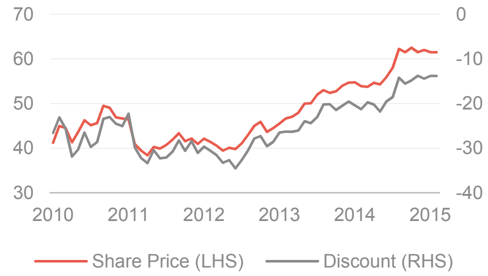
Source: Bloomberg, Marten & Co, SYZ Asset Management. We have compared Altin's performance to the HFRI Fund of Funds Index, the MSCI World Hedged Index (which is the MSCI World Index hedged back into US dollars on a monthly basis) and the CGBI WGBI – the Citi Government Bond Index World Government Bond Index.

* There are 3,449,706 shares in issue, 56,327 of which are held in Treasury, leaving 3,393,379 outstanding.

Sector	Hedge Funds
Ticker	AIA LN / ALTN SW
Base Currency	USD
Price	61.5
NAV	71.37
Premium (Discount)	(13.8%)
Yield %	Nil

Share price and discount

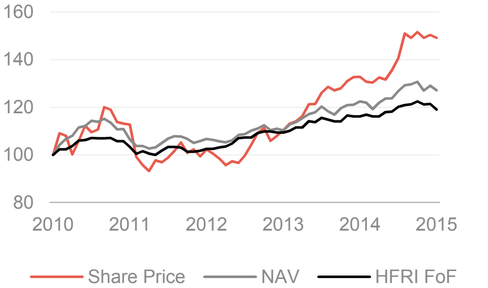
Time period 31/08/2010 to 22/09/2015



Source: Bloomberg, Bank Syz Asset Managent, Marten & Co

Performance over five years

Time period 31/08/2010 to 31/08/2015



Source: Bloomberg, Bank Syz Asset Managent, Marten & Co

Domicile	Switzerland
Inception Date	01/12/1996
Manager	Michaël Malquarti Alexandre Rampa
Market Cap (USD)	208.7m
Shares Outstanding	3,393,379 *see left
Trading Volume	5,946
Net Gearing	26.3%
NMPI Status	Not an NMPI

Technical terms

The world of hedge funds is littered with technical terminology. If you are viewing this on-line, you should find links to the glossary section of the QuotedData website scattered throughout this note that will hopefully provide some explanation, if needed. If you are reading a hard copy, you can visit our website and just type any term whose meaning you are unsure of in the search box, hit enter and the relevant glossary item should pop up. You will also find a note that explains a bit about the different strategies that hedge funds employ and another that explains the basics of risk. If we have missed anything just let us know using the contact us tab on the website.

The attractions of Altin

The relatively loose monetary policy that has sustained the post financial crisis recovery, as central bankers have attempted to shore up their economies, has been unprecedented in scale and likely to be scaled back as recoveries take hold. Notwithstanding recent jitters related to the slowdown in China, the general consensus is that the trend must still be for a monetary tightening in the US, at least, with other central banks easing bank on their Quantitative Easing ("QE") programmes over the longer term. A return to normality may still be some way off but it appears that investors will have to get used to greater volatility in markets as interest rates broadly move along the path to more normal (historically higher) levels. Altin say that they are seeing demand from investors that are keen to find some shelter against rising volatility. They may be attracted by Altin's commitment to provide returns with low annualised standard deviation. Other "absolute return" funds have made significant allocations to assets such as gold and index-linked bonds. However, Altin's portfolio offers investors a distinct, and better diversified alternative, to these funds which appear to have more narrow bets. Furthermore, Altin's managers have been increasing the amount of downside protection in the portfolio (see page 3).

Additional information is available at Altin's website, www.altin.ch

There is also the potential to earn an additional return if Altin's discount, currently around 14%, continues along it general path of narrowing. The Board has made a firm commitment to narrow the discount and has already had some success in this regard (see page 8).

Managers' views on markets

Altin's managers believe we are nearing the end of a long running trend of falling bond yields and equity markets rising on the back of abundant liquidity. Valuations appear to have risen near universally, with bond markets reaching levels unseen before and, not surprisingly, equity markets have also been supported by this situation. The managers tell us that central bankers in the developed world seem to have cornered themselves and are unsure about the path to normalisation. They believe that they are postponing an inevitable day of reckoning. In their view, the end of QE in the US as well as the Swiss National Bank's decision to stop trying to hold down the Swiss Franc were forerunners of this shift to normality. They say that all of the signals coming from the Fed are guiding the market to be ready for an interest rate rise but, in their view, many investors still seem unprepared as the savage moves that accompany stronger hints of rising rates illustrate. They believe that the liquidity that has been keeping markets buoyant might have already started to recede and the trend might continue as central banks explicitly start the tightening process.

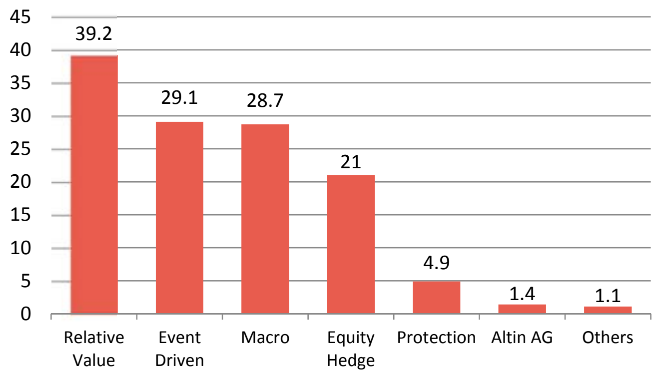
In Altin's managers' view, this is not to say that rate rises will be dramatic but the market volatility that they engender might. Nonetheless, the managers are also optimistic that, as we move through this phase, some lasting trends will emerge that macro managers can turn to their advantage. They also expect that a higher level of volatility will provide more opportunities for hedge funds to add value.

Portfolio developments

Allocations to relative value and tail protection strategies have increased over H1 with those to macro and equity hedge reducing.

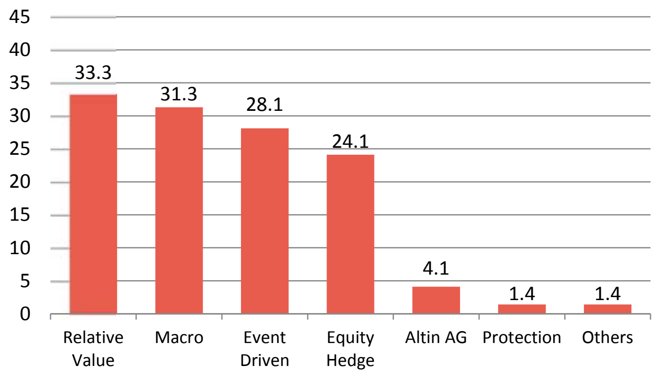
As illustrated in Figures 1 and 2, Altin's allocations to relative value and protection strategies have increased during 2015 primarily at the expense of macro and equity hedge. Another noticeable change is the reduction in the portfolio's holding in Altin itself. This largely reflects sales during Q2 and Q3 of treasury shares to a number of primarily UK institutional shareholders. Altin hope that this will help to stimulate liquidity in the London line over the longer term.

Figure 1: Portfolio allocation by strategy as at 1 August 2015



Source: SYZ Asset Management

Figure 2: Portfolio allocation by strategy as at 1 January 2015



Source: SYZ Asset Management

Conquest Macro trimmed whilst two new funds Fortress Convex Asia and Tailprotect have been added.

The weighting to protection strategies has increased from 1.43% at the start of January 2015 to 4.87% on 1 July 2015. Within this, two new tail protection funds have been added. These are Fortress Convex Asia, which was 2.01% of the fund on 1 July, and TailProtect Limited, which was 1.87%. Fortress Convexity Asia aims to deliver returns that are negatively correlated with markets, protect capital and benefit from volatility. It is focused on equity, credit, commodities, fixed income and foreign exchange markets in Asia. TailProtect is a more global fund with a similar objective. These funds are designed to generate meaningful positive returns when markets move sharply downwards. Altin's managers think it has been a good period to add this kind of protection. They say that the growth of structured products has effectively lowered the cost of this. Within the protection bucket, the position in Conquest Macro Fund which has been trimmed from 1.43% to 0.99%. Altin's managers say that they have a policy of regularly rebalancing holdings in some of their more volatile holdings and the trimming reflects the strong performance of the fund this year. The managers say that it was the largest contributor to Altin's performance in Q1 2015 and a significant contributor in Q3 2015.

As noted above, the proportion of the portfolio allocated to Macro strategies declined over H1. Altin's managers say that, whilst they took some profits in this area, it still represents a core part of the portfolio and they believe that Altin is likely to overweight its allocation to macro strategies when compared against the fund of hedge funds peer group average. Three macro funds were sold from the portfolio in their entirety during the first half of 2015; ABD Managers Tactical Discretionary Macro, Fulcrum Alpha Macro and Old Hickory Trading Partners. One new fund was added, Finisterre Global Opportunity Fund. Finisterre is a long / short emerging markets macro fund. Altin's managers say it is not a particularly high volatility fund. They believe they are buying at a time when emerging markets are facing varying situations depending on their sensitivities to commodity prices, US interest rate rises, etc. In this context, they believe that a macro long-short approach could be advantageous.

Reduction in equity hedge primarily reflects profit taking on, biotech focused, Perceptive Life Sciences.

The reduction in the allocation to equity hedge strategies is largely a consequence of the sale of Perceptive Life Sciences Offshore, which was the largest positive contributor to Altin's performance in Q2 2015. Altin's managers say that the biotech sector is looking more expensive in their view and as they feared that rising rates might have an impact on some of these stretched valuations (as discount rates used in DCF models increase), they decided to crystallise their profit on the holding. Another interesting holding within the equity hedge basket is dedicated China fund, Zeal China Fund. This fund, which is Altin's only dedicated China Fund, is a value-biased long / short fund that invests mainly in H-shares and Altin's exposure has remained broadly unchanged YTD. The gyrations of the Chinese market have been hitting the headlines recently and Zeal China has been riding the market up and down. Despite these movements, we are advised that the underlying managers aren't negative on China per se however and have confidence in the stocks they own.

The allocation to relative value funds has increased. Within this, one name has left the portfolio (PAMLI Global Credit Strategies Offshore) and one name has been added (Acadian Global Leveraged Market Neutral Equity). The managers say that the addition of the Acadian fund was a move to increase the relative value allocation, whilst taking advantage of what they see as an improved environment for equity market neutral funds.

Cumulus Macro Fund (previously Cumulus Energy) remains energy focused but is now applying its approach to agricultural commodities.

And, for the avoidance of doubt, the macro fund, Cumulus Energy Fund, which was in Altin's portfolio at the start of the year is still there although its name has been changed to Cumulus Fund Leveraged. This is an interesting fund whose managers look to interpret the potential impact of meteorological forecasts, on future energy prices, and then position their portfolio accordingly. The name change reflects that, whilst the fund remains primarily focused on energy prices (mainly electricity with some natural gas), the managers have expanded their universe and have started to apply their approach to dealing in agricultural commodities as well.

Altin's managers are seeing many hedge fund managers becoming increasingly risk averse.

Overall Altin's managers think that markets may be on the expensive side of fair value. Nonetheless, they still want to target managers who can see opportunities and are prepared to make allocations accordingly but anecdotally they say they are seeing many managers becoming increasingly risk averse (at least in terms of market risk). Despite this, Altin's managers say that the portfolio's beta (a measure of its sensitivity to market movements) has remained fairly constant at around 0.3 to 0.35, so far during 2015, although the recent increase in allocation to hedge funds providing tail protection strategies may change that (theoretically making it less sensitive).

Both Altin's Share price and NAV returns YTD have beaten the returns provided by HFRI FOF Composite, MSCI World Hedged and CGBI WGBI Indices.

Performance

As illustrated in Figure 3, Altin's NAV has made steady progress this year cumulatively returning 2.74% to the end of August. Share price performance has been noticeably stronger (13.26% YTD) with the share price gaining more ground in each month with the exception of July although this month potentially includes a degree of bounce back following the fall in June. However, this sustained outperformance of the share price illustrates how the trend of discount narrowing has occurred over the year. It is also noteworthy that, despite challenging markets conditions, Altin has beaten all three benchmarks provided in Figure 3 in terms of both its share price and NAV return.

Taking a more granular perspective, Altin's monthly NAV returns have been positive, so far this year, with two notable exceptions – June and August. The managers say that, in June, a combination of factors had adverse effects on a number of strategies, notably in the macro bucket, but market weakness was not sufficiently severe as to create offsetting upside from the protection strategies bucket. Furthermore, they also say that resurgent concerns about a potential GREXIT (Greece exiting the Euro) caused a spike in volatility which, coupled with a general correction, hurt some long biased funds. However, some funds were still able to post decent returns. The strongest was from LLSOF (a litigation fund), which returned 6.5%, followed by Perceptive (3.7%), Two Sigma Enhanced Compass (+2.6%) and Goldfinch (+2.1%). In July, as markets settled, the managers say that macro funds bounced back, relative value strategies performed well and the only detracting style was equity hedge.

Figure 3: Altin monthly NAV and share price performance vs indices YTD

Month	Share price return (%)	NAV return (%)	HFRI FoF Comp. TR (%)	MSCI World Hedged TR (%)	CGBI WGBI Total Return (%)
January	2.95	0.05	0.13	(0.67)	2.03
February	3.76	2.46	1.69	5.72	(0.75)
March	7.33	1.91	0.66	(0.67)	0.76
April	(1.20)	0.34	0.25	0.85	(0.76)
May	1.63	0.79	1.00	0.97	(0.63)
June	(1.60)	(2.80)	(1.05)	(3.11)	(1.29)
July	0.08	1.56	0.18	2.43	1.28
August	(0.08)	(1.49)	(2.0)	(6.85)	(0.17)
YTD	13.26	2.74	0.87	(1.81)	0.41

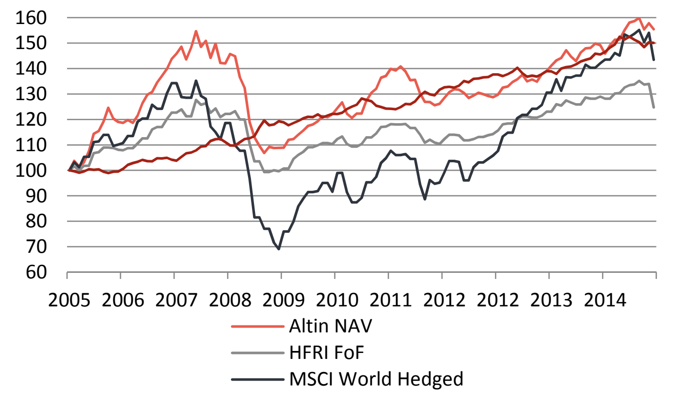
Source: Altin AG, Bloomberg, SYZ Asset Management.

Figure 4: Cumulative performance to 31 August 2015

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	10 years (%)
Altin share price	(0.8)	(1.6)	6.0	12.3	45.9	49.2	49.6
Altin NAV	(1.5)	(2.8)	0.2	3.8	19.1	27.1	55.4
HFRI FOF Composite	(2.0)	(2.8)	(0.9)	1.6	16.1	19.0	31.3
MSCI World Hedged	(6.8)	(7.6)	(6.5)	(0.2)	39.1	60.8	43.5
CGBI WGBI	(0.2)	(0.2)	(0.8)	2.9	10.3	17.1	50.1

Source: Altin AG, Bloomberg, SYZ Asset Management and Marten & Co

Figure 5: Altin NAV vs indices - 10 yrs to 31 August 2015



Source: Altin AG, Bloomberg, SYZ Asset Management and Marten & Co

Figure 6: Performance - 10 years to 31 August 2015

	Altin NAV	HFRI FoF Comp.	MSCI World Hdg'd.	CGBI WGBI
Performance	55.5%	24.8%	43.5%	50.1%
Ann. Return	4.5%	2.2%	3.7%	4.1%
Volatility	8.3%	5.9%	14.1%	2.9%
Sharpe Ratio	+0.11	-0.25	+0.05	+0.08
Best Month	+6.3%	+3.3%	+10.1%	+3.0
Worst Month	-10.2%	-6.9%	-15.9%	-1.6%
% +ve Months	64.5%	64.5%	61.2%	64.5%
% -ve Months	35.5%	35.5%	38.8%	35.5%
Correlation	1.00	0.88	0.60	-0.27

Source: Altin AG, Bloomberg, SYZ Asset Management and Marten & Co

Moving into August, a marked correction in markets provided a backdrop against which you would typically expect to see a shift in return contributions from the different strategy buckets, hopefully coupled with some downside protection when compared to equity markets. Broadly speaking, this appears to be the case. However, the managers comment that the correction was not sufficiently strong for many tail protection strategies to kick in and so, whilst August was not a good month for the average hedge fund, many strategies limited losses whilst some were able to provide a positive performance. Specifically, Altin's managers say that its superior performance in August (vs the average hedge fund) is primarily explained by 1) a top-down strategic allocation of tilting the portfolio towards relative value and a diversified set of Macro strategies (vs the average Fund of Funds), 2) The recently-increased allocation to protection strategies, 3) an overweight allocation to more niche/less liquid strategies (such as distressed) and 4) a better-than-average performance (vs HFRX indices) from single managers in most buckets, except Equity Hedge, which they say is primarily due to the fact that, in general, they tend to favour more volatile underlying managers.

Looking at August's performance in more detail, Altin's managers say that the macro bucket provided quite a wide dispersion or returns during the month with style and time horizon being key differentiating factors. Anedcdotally, they say that many macro managers (both systematic and discretionary) were long equities, which is likely to have been a headwind but that, in some instances, intra-month trading and contributions from other asset classes helped produce positive returns.

Anecdotally, Altin's managers comment that equity hedge strategies tend to have a long equity bias and, as a result, frequently suffer during strong market corrections. However, Altin's managers also observe that their underlying managers began August with relatively high levels of short equity positions, which limited these funds losses in the correction. Furthermore some managers have since moved to increase their net exposure.

Historically, event-driven strategies have tended to suffer when volatility spikes upwards and Altin's managers believe that August was no exception. They say that, as might be expected, equity strategies generally sustained higher losses than in credit strategies although, within the distressed category, some managers were actually able to provide positive performances. They also reflect that some of their underlying managers took the opportunity provided by lower prices following the correction to add to positions where they have strong conviction.

Within the relative value bucket, Altin's holdings provided performances that were typically flat to positive, according to the managers. They say that the more market-neutral strategies provided a slightly positive performance over the month.

As would be hoped, Altin's protection strategies basket did well in August, although Altin's managers comment that tail-hedging strategies are broadly constructed to start "kicking-in" strongly when markets correct beyond -10%. This was not the case for the August correction and so the bulk of the contribution came from Conquest Macro.

Another month worthy of note is January where Altin posted mildly positive NAV growth of 0.05%. January saw the Swiss central bank unexpectedly announced its decision to allow the Franc to appreciate, which rattled equity markets. A key point highlighted by Altin's managers is that returns during the month were widely dispersed both across and within the different strategy buckets. In their view, Altin's mild NAV growth reflects well and provides an illustration of the potential to preserve capital during periods of market difficulty.

Taking a longer term perspective, Figures 4, 5 and 6 illustrates how both Altin's NAV and share price returns have beaten those of the HFRI FOF Composite, MSCI World Hedged and CGBI WGBI Indices over the last ten years. This trend has continued YTD. Figure 6 illustrates that, during this period, Altin's volatility has been higher than that of the HFRI FOF Composite and the CGBI WGBI, whilst noticeably lower than the MSCI World Hedged. However, looking at risk adjusted returns, Altin's NAV has a higher Sharpe ratio than all three indices.

Altin has been outperforming when compared to the US Dollar share class of the other London listed fund of hedge funds, Dexion Absolute, during the first half of this year. Altin's NAV returned 2.7%, whilst, stripping out the uplift from Dexion's 2014 Redemption Offer, it returned 1.4%.

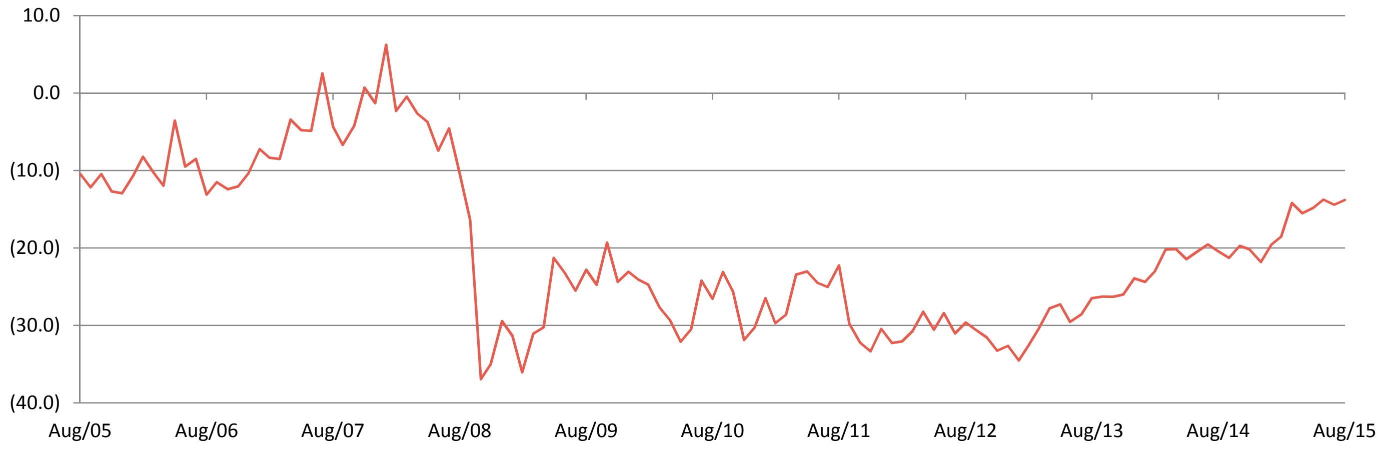
Concerns over a potential GREXIT and slowing growth with stock market bubbles in China have given markets cause for concern this year. However, Altin's performance YTD suggests it has been able to navigate through this period of market turbulence and provide a lower volatility alternative.

Discount

Altin's discount has continued to narrow but remains above pre-crisis levels.

As illustrated in Figure 7, Altin's discount has continued on its broad path of narrowing that has been the trend since the beginning of 2013. The discount continues to be in excess of its average pre-crisis levels but the gap has closed. Potential catalysts for this to close further could include an increase in demand for absolute return and / or lower volatility strategies (this could be triggered by a sustained uplift in market volatility). Altin has been engaged in efforts to reach out to UK investors this year and has reduced its treasury stock primarily through issuance to UK investors. This has stimulated liquidity in Altin's London line, which may also be contributing to the trend of discount narrowing.

Figure 7: Month end premium/(discount) over ten years



Source: Altin AG, Morningstar and Marten & Co.

The Board's commitment to return capital when Altin returns less than 10-12% in a year helps align the manager's interests with shareholders.

As discussed in our initiation note of February 2015, Altin's board believes that investors should 1) expect to earn 6% returns in the current environment and 2) have that topped up by an element of discount narrowing. As such, when Altin fails to achieve c10%-12% over a calendar year, the Board thinks shareholders should be compensated by giving them the chance to exit part of their investment. For a number of technical reasons (these are discussed in our initiation note), put-options are issued to shareholders allowing them to return a specified number of shares at a price greater than the prevailing market price. Such a programme was completed earlier this year and we believe that this action provides investors with some assurance that the board are committed to providing investors with this level of target return. Such a process may also be supportive of discount narrowing.

Peer group comparison

Figure 8 provides a peer group of Altin against other funds and funds of funds. Altin's share price performance, relative to its peers, is particularly strong over the one and three year time frames (first over one-year and second over three years). This improvement in performance coincides with the appointment of Alexandre Rampa and Michaël Malquarti as heads of Altin's management team in 2012. On their appointment, they refocused the portfolio taking on some risk to improve returns but also investing in higher return uncorrelated funds and moving the portfolio back towards investment in longer lock-up funds to take better advantage of the benefits of the closed-end structure (more detail is available in our initiation note of February 2015). The objective, in making the changes, was to achieve higher expected returns without much more market risk.

Figure 8: Hedge fund peer group comparison

	Share price return 1 year (%)*	Share price return 3 years (%)*	Share price return 5 years (%)*	Share price return 10 years (%)*	Ongoing charges (%)**	Premium/ (discount) (%)	Yield (%)
Altin	10.5	12.9	8.0	3.9	1.6	(14.8)	
Acencia Debt Strategies	(9.5)	9.4	10.5		1.0	(5.0)	1.2
BH Global	6.6	3.5	3.2		1.4	(5.2)	
BH Macro	4.2	2.0	3.2		2.5	(5.0)	
BlueCrest All Blue	2.3	4.3	2.2		0.1	(5.9)	
BlueCrest Blue Trend	4.8	(0.1)			0.2	(0.1)	
Boussard & Gavaudan	(2.9)	8.4	5.4		1.6	(24.5)	
Dexion Absolute	5.3	10.1	9.9	4.9	1.4	(6.3)	
DW Catalyst	(10.9)	6.6			2.5	(6.0)	
Global Fixed Inc Real.	(45.7)	(38.2)	(25.9)		1.8	(62.4)	
Third Point Offshore	0.2	24.2	19.4		2.5	(5.4)	5.3
S&P 500	0.5	14.3	15.9	7.2			

Source: Marten & Co, Morningstar. *Note: Share price returns are cumulative returns to 31 August 2015 in US Dollar equivalent. **Note: Where applicable, ongoing charges are at the fund level and do not include the look fees charged by any underlying funds.

Previous research publications

Please see our initiation note of February 2015 for further details on such aspects as investment process, fees, capital structure, co-advisors and board.

Alternative investment – 3 February 2015

QuotedData

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123a Kings Road, London SW3 4PL
0203 691 9430

www.quoteddata.com

Registered in England & Wales number 07981621,
135a Munster Road, London SW6 6DD

Edward Marten
(em@martenandco.com)

James Carthew
(jc@martenandco.com)

Matthew Read
(mr@martenandco.com)